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OFFICE OF RESEARCH AND REPORTS

BRIEFING PAPER  
1960

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Introduction

The past year has seen a deepening of the struggle between the Free World and the Communist Bloc. Activities and policies of the Sino-Soviet Bloc countries have become increasingly aggressive and reflect the growing conviction among Communist leaders that, to paraphrase Khrushchev, an irrevocable shift in the relation of forces in the world is taking place to the advantage of the Communist Bloc.

The second year of the Seven Year Plan (1959-65) was completed by the USSR in a mood of glowing optimism. Although agriculture has made little or no progress during the first two years of the plan period, industrial production continued to grow at a very high rate and the outlook for the fulfillment or overfulfillment of the Seven Year Plan, except for agriculture, continues to be favorable. Khrushchev, in words intended to be heard in the less developed countries as well as in the USSR, continued to boast that by 1970, five years beyond the end of the Seven Year Plan "...and possibly even earlier, the Soviet Union will gain first place in the world both as regards absolute output and the output of goods per capita, which will ensure for the [Soviet] population the highest living standards in the world. That will be the world historic victory of socialism in its peaceful competition with capitalism."

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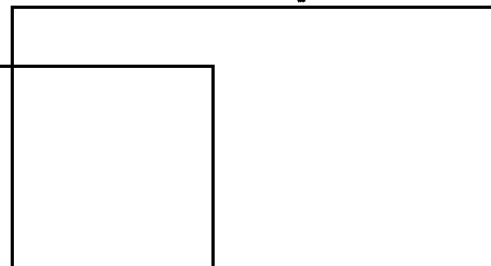
Mr. Khrushchev's timetable is, in our judgment, unrealistic. Nevertheless, if the Soviet industrial growth rate continues at 8 or 9 percent per annum during the 1960's which we regard as feasible, and if the U.S. industrial growth rate does not substantially increase during this period, the gap between the two economies will be dangerously narrowed. We can expect the Soviets to step up their trade and aid offensive and to use their future production achievements as the basis of a powerful propaganda campaign aimed at the uncommitted, less developed countries of the world.

Dramatic developments also took place in Communist China. Industry in 1960 continued to expand at a rapid rate after a decade of priority allocation of economic resources to industrial, especially heavy industrial development, but the pace of expansion has declined considerably from the leap forward peak in the second half of 1958. In the face of two successive poor crop years in 1959 and 1960 and a rapidly expanding population, the regime has been admitting that it must give higher priority to agricultural development. The recent difficulties in Sino-Soviet relations, marked in particular by the withdrawal of Soviet industrial technicians from Communist China, have underscored the importance of Soviet material and technical assistance to China's rapid industrial development. Chinese Communist propaganda has exploited production successes as evidence of the superiority of the Communist system, a message that can carry a strong appeal to small countries ambitious for economic progress.

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The continued intensification of the East-West conflict is having a major impact on our economic intelligence activities, and the urgency of our mission has mounted. Accordingly, high priority continues to be assigned to both the collection and the production of economic intelligence.

In today's world, the long-run balance of national power depends on economic capabilities, on the goals to which economic resources are directed, and on relative economic growth. The gravity of the Communist threat in these three critical areas cannot be dismissed. It follows that reliable and objective intelligence on the Communist economies -- their strengths and weaknesses, their problems, intentions and prospects -- must be available to those responsible for shaping the U.S. reaction to the threat. Our Office of Research and Reports provides such economic intelligence support.



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Economic Intelligence

The issues posed by Khrushchev's challenge to the West to engage in "peaceful competition" have given great emphasis to the need for thorough, accurate and timely production of economic intelligence on the Sino-Soviet Bloc as an area of critical national security interest.

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By inter-agency agreement and DCI directive the primary responsibility for economic intelligence research on the Sino-Soviet Bloc is assigned to the Office of Research and Reports.

An adequate assessment of the complex and closely interrelated problems of the economies of the Sino-Soviet Bloc requires an integrated approach to the research effort. ORR, to meet its responsibility, must direct its intelligence activities at all levels of the economies of the Sino-Soviet Bloc in varying degrees of intensity. Our analyses have emphasized the exploration of the economic factors which will play a major role in the determination of the future course of the Bloc economies. In this connection, considerable attention has been given to the economic interdependence existing between the Bloc economies and to the substantial reorientation of trade among Bloc members and between them and the Free World.



This Office devotes an important part of its research effort to the analysis of economic growth in the USSR. Close analysis of an expanding volume of published statistical material, policy discussions, and official statements facilitates measurement and anticipation of the problems of the complex Soviet industrial structure. Structural shifts in the economy, occasioned by problems in the expansion of the raw material and energy base, by the decision to channel more investment into housing and agriculture, and by the need to accelerate capital investment as an offset to a temporarily worsening labor supply

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situation, are now more fully understood. This fuller understanding has been reflected in ORR's annual contribution to the Soviet National Intelligence Estimate which evaluates the recent and expected future developments in Soviet economic growth.

The Office in 1960 continued to intensify its economic research program on Communist China. ORR's contribution to the annual National Intelligence Estimate on Communist China rejected the agricultural output gains claimed by the Chinese for 1959 and for their 1960 plan goals, but concluded that most official claims of achievements in industry and transportation appear plausible. We have been engaged in research projects dealing with Sino-Soviet economic relationships to determine the present and future dependence of the Chinese Communist economy upon the supply of technical assistance and capital plant and equipment from the USSR and the European Satellites.



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Despite the efforts of the leadership, unrest continues to exist in several of the European Satellites. ORR research, therefore, continues to address itself to the exploration of those economic factors which could lead to significant changes in economic policy in these

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Satellites. ORR's present concern in the longer-run future of the Satellite economies is focused particularly on the relationships of these economies with that of the Soviet Union in the years after 1960.

During the past year, ORR prepared materials for a briefing on Soviet manpower, which was given to the President and members of his cabinet. The briefing covered the manpower outlook for the 1960's and was analogous to one on U.S. manpower given previously by the Secretary of Labor. ORR also prepared a major research project analyzing employment trends in the USSR during the 1950's and the outlook for the Seven Year Plan (1959-65). The findings of this research, together with a continuing appraisal of new information relating to Soviet manpower, were used in contributions to national intelligence estimates and in current intelligence support.

Comparisons of the U.S. and USSR economies and of Bloc versus Western economies are frequent subjects of high-level interest. Lack of data and the lack of clear definitional standards for the available data, combined with the basic conceptual difficulties inherent in such comparisons, mean that our present comparisons will continue to require refinement. Research is proceeding on several fronts in a concerted effort to improve our capabilities in this priority area.

In 1960 this Office, in collaboration with the Departments of State and Defense, prepared a study on "Comparisons of the United States and Soviet Economies" dealing with the relative costs and

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benefits to the U.S. and the USSR of their respective alliance systems. This study was published as a public document by the Subcommittee on Economic Statistics of the Joint Economic Committee of the Congress. The Office also made a substantial contribution to the study of the Relative Power Positions of the USSR and the U.S., 1960-1970, prepared by a special Task Force at the request of the National Security Council.

During 1960, when the Free World has come under an increasing threat from operational Soviet missile systems of all ranges, including the ICBM, the requirements of the highest levels of the government for accurate intelligence assessments of the magnitude of this threat, supported by the firmest possible intelligence evidence, have continued to grow in scope and urgency. In recognition of these needs and in the face of the Intelligence Community's continued difficulty in deriving conclusive evidence from currently available information on Soviet strategic missile programs, an ad hoc DD/I Task Force was established early in the year to work exclusively on the problems of production and deployment of Soviet long-range missiles. The leadership and the major part of the research personnel of the Task Force were drawn from ORR's staff of experienced missile analysts; selected specialists from elsewhere in the DD/I area were integrated into the Task Force. Intelligence on the production and deployment of other Soviet missiles, including the defensive systems, continues to be an important ORR responsibility carried on, although on a somewhat reduced scale, in close coordination with the work of the Task Force.

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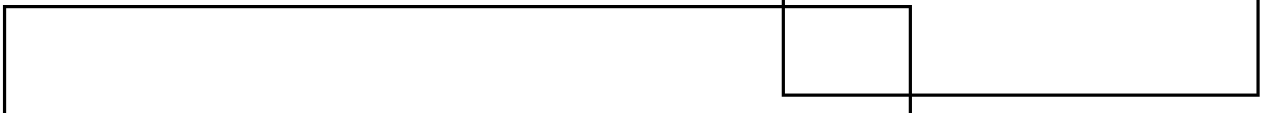


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Including its participation in the Task Force, ORR was again an important contributor to all National Intelligence Estimates dealing with Soviet military capabilities. Continued support was provided to activities of the Guided Missile and Astronautics Intelligence Committee (GMAIC). In particular, an ORR member of the Task Force was named Chairman of the Production Working Group of GMAIC, which prepared, at USIB request, a comprehensive analysis of the evidence on Soviet ICBM production based largely on CIA contributions. The Task Force has also provided the Agency member of the GMAIC Deployment Working Group and supported its activities extensively, including participation in a long-range missile deployment report for USIB paralleling the ICBM production report.

The continuing research of the Task Force is designed to insure the most exhaustive possible exploitation of the large volume of fragmentary data relating directly or indirectly to long-range missile production and deployment in the USSR. In support of the Task Force, there has been a further reorientation of the research of selected ORR components whose economic or industrial fields of specialization may yield evidence bearing on Soviet guided missile capabilities.

During the past year, ORR also continued to provide a high level of guidance and support to collection activities of all types in an effort to insure that no opportunity to develop more effective sources of guided missile intelligence is overlooked.



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ORR's research effort on the economic aspects of Soviet Bloc atomic energy activities continued through 1960. Studies were made of the availability of key inputs to the Soviet atomic energy program and of the cost of that program to the Soviet economy.

In the field of military economic research, ORR continues, as a service of common concern, its role of costing the entire current Soviet military effort and of estimating the fiscal feasibility of possible future Soviet military programs. The mission-oriented basis for estimating and presenting Soviet military expenditures has become established and refined relative to initial efforts and now is a regular complement to the preparation of such expenditures by object classification.

Turning to military end product industries, our economic intelligence activities are largely centered around the Soviet bomber and transport, and submarine manufacturing industries. In the aircraft industry we see the continued shift from the production of bomber to transport type aircraft. In the submarine manufacturing industry we note a continued development in the production of many different types of submarines, some of which are highly suspect of being nuclear propelled.

During the past year, Sino-Soviet Bloc countries have intensified their efforts to penetrate less developed areas of the Free

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World through expanded trade and economic aid programs. ORR continues to monitor and analyze developments in this field, and provides, in cooperation with the Department of State, most of the intelligence on the Sino-Soviet Bloc economic offensive which is distributed as agreed intelligence in publications of the Economic Intelligence Committee.

While Soviet announcements and recent statistical publications in certain non-strategic fields have been of value in our analysis of the Soviet Bloc economies, the Office must continue its intensive analysis of fragmentary and often conflicting data obtained overtly and covertly from innumerable sources. The complexity of the job and the need for an integrated approach mean that the economist, the technical expert, and the area specialist, all with their individual skills are vital elements of the research team. Experience has shown that additional training oriented toward specialized intelligence research tasks, although expensive and time consuming, is necessary for most of those who become effective intelligence officers in the research teams of the Office.

In addition to the refinement of techniques of analysis to maximize the use of the factual information which is constantly flowing into the Office, we have intensified our program of collection guidance, stressing those areas where information needs are critical.

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In addition to its comprehensive economic research, the Office of Research and Reports evaluates and interprets current economic developments. A special staff, working in close cooperation with the Office of Current Intelligence and supported by appropriate ORR research components, prepares a constant flow of reports on these developments for inclusion in the Agency's and the community's output of current intelligence. The same mechanism is used in marshalling the full support of this Office behind the National Indications Center and the USIB Watch Committee.

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the soundness of our estimates and advice on ways to simplify or economize in our research procedures.

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The annual economic research program of the Office, aimed as it is at serving a number of different interests and purposes, is necessarily complex and broad in scope. Past experience, analyzed quantitatively by machine methods, is depended on heavily in the development of new programs and in the periodic program reviews. Particular attention is given to the Priority National Intelligence Objectives and to such advice as our principal consumers are able to provide concerning their requirements in the months to come. Formulation of the program begins with full provision for support to the production of scheduled and anticipated National Intelligence Estimates. Provision must also be made for scheduled contributions to the National Intelligence Surveys, where the Office has responsibility for the economic sections of the NIS dealing with the Sino-Soviet Bloc. Similarly, certain aspects of ORR's work in support of other agencies are scheduled in response to community-wide deficiencies in economic intelligence as identified by the Economic Intelligence Committee. In addition, this Office is aware from experience that a substantial

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portion of our research time will have to be spent in meeting "crash" or emergency requests from various high-level consumers. Finally, ORR attempts in its research planning to find time for projects which will examine economic questions likely to become of national intelligence significance in the future.

It is in this manner that the Office of Research and Reports meets its responsibilities for providing the necessary intelligence on economic activities and trends of the countries within the Sino-Soviet Bloc.

#### Geographic Intelligence

We maintain within our Office of Research and Reports a group of competent geographic analysts who provide research and technical support to all parts of the intelligence community and contribute substantially to the National Intelligence Survey Program.

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toward aiding the high-level analysis of factors involved in foreign political crises affecting security interests of the United States. For example, during the past year briefing studies were prepared on the Belgian Congo, South Vietnam, and the Shatt-al-Arab controversy between Iran and Iraq. Other more detailed studies have contributed to the surveillance of USSR progress in nuclear energy, guided missiles, and biological warfare, and to the evaluation of Chinese Communist development of similar capabilities. We are devoting increasing attention to ethnic minorities and territorial disputes that may accentuate antagonisms in various trouble spots of the world, such as those arising between the governments of Communist China and the Soviet Union.

Since the inception of the National Intelligence Surveys Program, the geographic group has provided substantial and continuing intelligence and cartographic support to this important intelligence activity. Research of a similarly basic nature has

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During the past year, a number of geographic intelligence reports and briefings were prepared on USSR operations in Antarctica and the Soviet Arctic, for use in assessing the significance of Soviet achievements and long-range intentions as they may affect United States interests in the Polar regions. In this work, we are closely supporting the Operations Coordinating Board through its Working Group on Antarctica. One outgrowth of this support has been the development of plans for the first systematic U.S. mapping program in Antarctica. In association with the Office of Scientific Intelligence and the Armed Services, we are analyzing Soviet geodetic activities as conducted within the USSR and abroad. By these analyses, the community is better able to evaluate Soviet progress in geodetic positioning for long-range targeting purposes.

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Experience has shown that one of the most effective ways of presenting intelligence is to make extensive use of specially constructed maps. The Cartography Division within the Office plans and prepares these intelligence maps for inclusion in CIA reports, National Intelligence Estimates, National Intelligence Surveys

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purposes including all cartographic requirements from the Department of State.

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Interagency Coordination

In carrying out CIA's responsibilities for coordinating economic intelligence relating to national security, the Office of Research and Reports plays an active role in the work of the interagency Economic Intelligence Committee (EIC), established in 1951 under CIA Chairmanship. The membership of this Committee is made up of the following USIB agencies: the Department of State; the Departments of the Army, Navy, and Air Force; the Joint Staff (JCS); the National Security Agency; the Office of the Secretary

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of Defense; and CIA. A number of non-USIB agencies are associate members, including the Departments of Agriculture, Commerce, and Interior; the International Cooperation Administration; and others. The Office of Research and Reports provides secretariat services for the main committee and for fourteen subcommittees, as well as for all standing and ad hoc working groups.

As one of its principal responsibilities, the EIC produces or arranges for the production of agreed interagency reports on selected economic intelligence matters of major importance. Biweekly and semi-annual summary reports on the Sino-Soviet Bloc economic offensive in Free World underdeveloped areas are produced and distributed throughout the U.S. Government to key officials and offices including principal overseas posts.

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The semi-annuals have been enlarged in

scope in order to present and appraise relevant non-economic, as well as economic, aspects of Soviet expansion into the underdeveloped areas. During 1960, the EIC issued its annual summary report on the international trade and transport of Communist China. Through an ad hoc working group, the EIC produced a study on the vulnerability of the East German economy to Western countermeasures. The EIC

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issued two subcommittee reports, and several subcommittees prepared and published working papers and research aids in their respective fields. Two subcommittees participated in arrangements for international conferences held in Washington.

The EIC reviews systematically economic intelligence activities within the U.S. Government to assist in identifying priority deficiencies in research and collection. As a means towards reducing unnecessary overlap and duplication, several of the substantive subcommittees have undertaken the review and coordination of departmental studies prior to publication and discussed agency research programs. Further, the survey listings of the EIC periodically report the status of U.S. Government economic intelligence studies and related research (undertaken both internally and externally by contract), on the Sino-Soviet Bloc and on Free World underdeveloped areas involved in Bloc economic penetration efforts. Proposals for external economic research contracts  are reviewed by the EIC, and comments and suggestions are forwarded to the sponsoring agencies for their guidance. Through the EIC mechanism, the Office of Research and Reports, as the organization primarily responsible for providing intelligence on the economies of the countries of the Sino-Soviet Bloc, obtains guidance in the continuing re-examination of its own

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During 1961, the EIC will continue the publication of the bi-weekly and semi-annual reports on Soviet penetration efforts. It is likely that the EIC will expand the terms of reference of its working group to include timely and periodic reporting on Bloc shipments to Free World countries of arms and military equipment, as well as the Bloc's provision of technical assistance and training in the military field.

CIA plays an active role in support of the U.S. economic defense program. The Office represents the Agency on the Economic Defense Advisory Committee (EDAC) and the Advisory Committee on Export Policy (ACEP) and on their several subordinate groups. Our activities include the provision of intelligence in support of U.S.

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15. Letters of appreciation were received from the Command and Staff College, Air University, USAF; the U.S. Naval Intelligence School; the U.S. Army War College; and Headquarters, NORAD, for the excellent support given them by ORR officers in the preparation of courses in Soviet economics and the presentation of lectures on subjects of interest to these groups. (Unclassified).

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